

STATE OF INDIANA
OFFICE OF THE SECRETARY OF STATE
SECURITIES DIVISION

FILED

OCT - 1 2009

IN THE MATTER OF:)
)
STIFEL NICOLAUS & COMPANY, INCORPORATED,)Cause No. 09-0198 SC
)
Respondent.)

ORDER TO SHOW CAUSE

The Office of the Secretary of State, Securities Division, filed an Administrative Complaint against Respondent alleging violations of the Indiana Securities Act, Ind. Code 23-2-1 (2007) ("the Act").

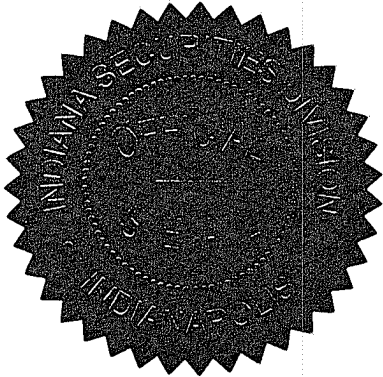
Pursuant to Ind. Code § 23-19-6-4(a), the Securities Commissioner ("Commissioner") may enter an order to show cause without a prior hearing when in the public interest.

After reviewing the Administrative Complaint and being duly advised, the Commissioner finds that grounds exist under the Act to order Respondent to show cause as to why an administrative penalty should not be levied against them, why an order of rescission, restitution or disgorgement should not be entered against them, and why they should not be barred from the securities industry in Indiana. The Commissioner finds this order is in the public interest.

The Commissioner therefore ORDERS the Respondent to file a written answer or other response to the Administrative Complaint within fifteen (15) days of receipt of this Order AND to appear at a hearing on November 18, 2009 at 9:00 a.m. in the conference room of the Securities Division, located in room E-111 of the Indiana Government Center South, 302 West Washington Street, Indianapolis, Indiana 46204.

If Respondent requests an earlier hearing in writing, a hearing will be set within fifteen (15) days after receipt of a request in writing from the person. The Commissioner is seeking a civil penalty and costs of the investigation against the Respondent.

ORDERED at Indianapolis, Indiana, this 1ST day of OCTOBER, 2009.



TODD ROKITA
SECRETARY OF STATE

A handwritten signature in black ink, appearing to read "CN" or "Chris Naylor".

CHRIS NAYLOR
SECURITIES COMMISSIONER

AFFIDAVIT OF SERVICE-CERTIFIED MAIL

I, Karen A. McGinnis, being duly sworn, state that a copy of the attached and foregoing **ADMINISTRATIVE COMPLAINT and ORDER TO SHOW CAUSE** was sent by Certified Mail, Return Receipt Requested, to Respondent, addressed as follows:

#7053 2007 47

**MAUREEN FISTER
STIFEL NICOLAUS & COMPANY
501 N. BROADWAY
SAINT LOUIS, MO 63102-2188**


on this 1st day of October, 2009.

A copy was also hand-delivered to Matthew E. Dumas of the Division.



Affiant

First Class Parcel
DMM 503 9.2.2



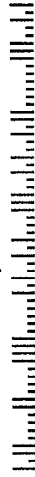
FCM

USPS FIRST-CLASS MAIL®

INDIANA SECRETARY OF STATE
TODD ROKITA
ATTN: J SMITH
302 W WASHINGTON STR ME111
INDIANAPOLIS, IN 46204-2740

SHIP MAUREEN FISTER
TO: STIFEL NICOLAUS & COMPANY
501 N BROADWAY

SAINT LOUIS, MO 63102-2188



e/USPS SIGNATURE CONFIRM



9121 8052 1390 7053 2007 47

Electronic Rate Approved #805213907

Attention Carrier
on Route #C004

This piece is being monitored for Delivery and Scanning accuracy:

Non-Machinable
Parcel

STATE OF INDIANA
OFFICE OF THE SECRETARY OF STATE
SECURITIES DIVISION

FILED

OCT - 1 2009

IN THE MATTER OF:)
)
STIFEL NICOLAUS & COMPANY, INCORPORATED,) Cause No. 09-0198 SC
)
Respondent.)

ADMINISTRATIVE COMPLAINT

Statement

The Office of the Indiana Secretary of State, Securities Division ("Division"), files this Administrative Complaint to commence an adjudicative proceeding against Respondent for violating the Indiana Securities Act, Ind. Code 23-2-1 ("the Act"). This is an enforcement action arising from multiple violations of state securities laws by the Respondent in connection with their sale of auction rate securities to Indiana investors.

Jurisdiction and Authority

1. The Division is a division of the Office of the Secretary of State with jurisdiction over matters relating to securities, as provided by the Act. The Act authorizes the Division to regulate: 1) the offer and/or sale of securities; 2) those individuals offering and/or selling securities; and 3) prohibits fraud in connection with the offer and/or sale of securities.
2. The Division brings this action pursuant to the enforcement authority conferred upon it by Ind. Code § 23-2-1-15 (2007) and 710 Ind. Admin. Code 1-19, and/or Ind. Code § 23-19-6-4. The Division has the authority to conduct an adjudicative proceeding to enforce the provisions of the Act and all Rules promulgated thereunder.
3. The actions and practices constituting the violations were perpetrated against Indiana residents by the Respondent.

4. The Division reserves the right to amend this Administrative Complaint and/or file additional Administrative Complaints to reflect information developed during an ongoing investigation.

Respondents

5. Stifel Nicolaus & Company, Incorporated (“Stifel”) is a for profit foreign corporation that can be served care of Maureen Fister at 501 N Broadway, St Louis, MO 63102.
6. Stifel is a registered broker dealer, firm CRD number 793.

Facts

Auction Rate Securities

7. An auction rate security (“ARS”) typically refers to a debt instrument (corporate or municipal bonds) with a long-term nominal maturity for which the interest rate is regularly reset through a Dutch auction on a 7, 28 or 35 day cycle. Interest is paid at the end of each auction period.
8. The interest rate on ARS is determined through the Dutch auction process. The total number of shares available to auction at any given period is determined by the number of existing bond holders who wish to sell or hold bonds only at a minimum yield.
9. The Dutch auction process is repeated every 7, 28 or 35 day cycle, depending upon the reset period specified.
10. Existing holders and potential investors enter a competitive bidding process at the Dutch auction through broker/dealer(s). Buyers specify the number of shares they wish to purchase with the lowest interest rate they are willing to accept.
11. ARS is a complex product held by both institutional investors and individuals. The minimum denomination for an ARS investment was \$25,000.

12. Each bid and order size is ranked from lowest to highest minimum bid rate. The lowest bid rate at which all the shares can be sold at par establishes the interest rate, otherwise known as the "clearing rate." This rate is paid on the entire issue for the upcoming period. Investors who bid a minimum rate above the clearing rate receive no bonds, while those whose minimum bid rates were at or below the clearing rate receive the clearing rate for the next period.
13. If there are not enough orders to purchase all of the shares being sold at the auction, a failed auction occurs. In this scenario, the rate is set to the maximum rate defined for the issuer. In the event of an auction failure, the issuer of the ARS pays a default interest rate, as previously established in the offering documents, until the next successful auction.
14. The purpose of the higher rate is to compensate the holders who have not been able to sell their positions. Broker-dealers usually bid on their own behalf to prevent failed auctions.
15. In some cases, investors may have ARS with a default interest rate of 0% or otherwise significantly below the market rate. An investor holding an ARS with a 0% default rate would, in the event of auction failure, be required to hold the ARS and receive no interest payment during the period until the next auction, 7, 28 or 35 days later.
16. Continuous auction failure would effectively result in an illiquid investment that generates no return or interest for the investor holding the ARS.
17. Broker-dealers frequently act as auction dealers for the ARS that they have underwritten. The auction dealer solicits the bid and submits the order directly to an auction agent. Because the broker-dealer acts as the auction dealer for the ARS that they have

underwritten, the auction dealer would learn ahead of time whether the ARS auction would be successful, and what the clearing rate would be for that issue of ARS.

18. Historically, broker-dealers acting as the auction dealer have stepped in during the case of auction failure to place a “cover” or “support” bid on their own behalf, and would carry the ARS on the firm’s own account to prevent auction failures.
19. At its peak, the ARS market was a multi-billion dollar nationwide market based in part upon representations that they were a highly liquid cash-equivalent that allowed investors to divest their holdings as needed. Investors were led to believe that they only waited until the next regularly scheduled auction to liquidate their holdings.
20. Between 1984 and 2007, 44 ARS auctions failed.
21. During the Summer of 2007, ARS auctions failed due to credit failures.
22. On February 13, 2008, 80% of the ARS auctions failed. On February 20, 2008, 62% of the ARS auctions failed. These auction failures led to a complete failure of the ARS market in February 2008.

Stifel’s Sale of ARS

A. The Institutional Client

23. Stifel began selling ARS in the 1990’s. In 2004 Stifel began underwriting issues of ARS as a co-manager.
24. In total, Stifel co-managed underwritings for at least twelve separate issues of ARS from five separate issuers. These included issues for: Missouri Higher Education Loan Authority (“MOHELA”), Calcasieu Parish, Louisiana (“Calcasieu”), Tortoise Energy Infrastructure Corporation (“Tortoise”), Kayne Anderson MLP Investment Company (“Kayne”), and Calamos Global Dynamic Income Fund (“Calamos”)

25. An initial review of new issues of ARS was done by the Investment Banking Commitment Committee (“IBCC”) who would determine if a particular security should be underwritten and marketed by Stifel. A review by IBCC of new issues of ARS would include a review of the financial condition of the issuer, the type of security being offered, its marketability under present market conditions and the potential risk to the buyer and seller associated with selling and purchasing the security.
26. Following the review, IBCC would determine whether to underwrite the offering. After approval, a detailed prospectus for the ARS was generated along with a “blue sheet” containing general information about the security. According to the head of Stifel’s Underwriting Syndicate, which had responsibility for distribution of the ARS, the sales force should have been trained regarding the risks associated with the product.
27. Each prospectus for each issuance of ARS underwritten by Stifel contained express disclosures about the role of underwriting broker-dealers in making cover or support bids and the potential risk of the illiquidity of the product.
28. ARS underwritten by Stifel were sold through the Fixed Income Capital Markets (“FICM”) group at Stifel. This institutional sales force was trained to sell ARS only to institutional clients that had experience in dealing with ARS. This sales force had weekly conference calls where risks associated with ARS were discussed. These discussions included the Dutch auction process, failure rates, support bids and default rates, as well as the potential of illiquidity resulting from a failed auction and the suitability of the product.
29. According to Stifel employees in the FICM group, located in Denver, Colorado, they never referred to ARS as a liquid investment akin to cash or money market funds.

30. As early as the summer of 2007, the institutional trading desk became aware of a failure in the ARS market. In December of 2007, they became aware that MOHELA temporarily waived the maximum rate for their ARS issue to increase liquidity for the product at the request of other larger broker-dealers who were providing cover bids to sustain the issue's liquidity.
31. On January 29, 2008, Stifel learned that there were insufficient bidders in the auction for the MOHELA issue and that a failed auction was imminent. At the time, one of Stifel's large institutional clients held about \$8.5 million of the MOHELA issue. Discussions occurred at Stifel about whether to make a support bid in the MOHELA issue to prevent the auction from failing and to take over the client's position. Stifel made the decision not to provide a support bid, and the auction ultimately failed. Nevertheless, on the same day the auction failed, Stifel made the decision to buy back this institutional client's MOHELA issue as Stifel believed this client was large and important.

B. *The Retail Client*

32. Stifel's approach to the sale of ARS to its retail customers was dramatically different. Beginning in at least 2007, Stifel's retail sales force began selling ARS to Stifel's retail customers, including sales to investors in Indiana.
33. Unlike its institutional sales force, Stifel's retail sales representatives did not receive any training regarding the risks associated with purchasing ARS. The retail sales force failed to disclose to their retail customers the potential for auction failure and the risk of holding illiquid securities.

34. Not knowing what the institutional sales force knew, the retail sales force purchased ARS on behalf of its customers who were seeking investments in securities that were a “cash equivalent” or “money market equivalent” security.
35. Thus, ARS were systematically offered and sold to Stifel’s Indiana retail customers as securities that were conservative, safe and liquid investments like money market funds.
36. Stifel’s retail sales representatives made claims to the investors touting the safety of the investment product as well as the liquidity of the ARS. Investors were typically not provided with a prospectus prior to investment (if they were provided with one at all), and instead relied fully upon representations made by Stifel and its sales representatives.
37. As a result, some Indiana investors placed money in these investments that they might need in the short term for taxes, to pay off a balloon note, or to purchase real estate. Stifel did not advise these investors that under certain circumstances, the funds invested for short term needs could be tied up indefinitely and that other products that it marketed as liquid did not carry this same risk.
38. Stifel provided no formal training to its retail sales representatives regarding ARS, the nature of the investment, the possibility of auction failure or the possibility of market failure.
39. Sales representatives were not told of previous failures in the ARS market, nor were sales representatives advised as to the nature of the various broker-dealers providing support or cover bids to prevent auction failure. Stifel took no steps to ensure that proper disclosures were being made to investors.

40. Stifel's retail sales representatives sold ARS to thousands of investors nationwide, including 141 Indiana investors currently in ARS products sold by Stifel totaling \$54,900,004.
41. Stifel systematically failed to disclose to its investors the true nature of the investment and the true nature of the various broker-dealer firms' involvement in propping up the ARS market.

The Failure of the Auction Rate Securities Market

42. In February, 2008, the ARS market failed, stranding tens of thousands of investors in billions of dollars worth of long term investments. The failure of the Auction Rate Market was the result of repeated failures of the Dutch auction process and the refusal of broker-dealers that had previously perpetuated the illusion of an always-functioning market to intervene.
43. The interference of broker-dealers in the Dutch auction market played a significant role in the illusion of a smooth-functioning market. From the perspective of investors, the ARS auction market functioned relatively smoothly. This impression was built upon the willingness of the auction dealer – typically the issuing broker-dealer – to step in to prevent auction failure. Because the auction dealer knew in advance of a potential failure, the auction dealer could step in to prevent the auction failure. When a broker-dealer steps in to prevent auction failure, they typically placed a cover bid and then carried the investment on their proprietary accounts.
44. In February of 2008, broker-dealers who had acted as the auction dealer ceased their practice of bidding to prevent auction failures and as a result, the ARS market collapsed. Combined with ongoing market conditions, the result was a freeze in the ARS auction

market, and a loss of the only secondary market for liquidating the investments.

Investors who held ARS were unable to liquidate their holdings and were left receiving the default rate of interest, which in certain instances was as low as 0%.

45. The institutional sales force at Stifel knew that this failure of the market was a possibility. But Stifel failed in its responsibility to take the necessary steps to ensure that its retail sales force knew of these risks, and failed to provide the supervision necessary to ensure that these risks were properly communicated to its retail customers.

The Securities Exchange Commission and ARS

46. In 2006, the Securities Exchange Commission (“SEC”) concluded an investigation of 15 firms, representing the ARS industry, entitled *In the Matter of Bear, Stearns & Co. Inc., et al.*, File No. 3-12310. The SEC concluded that Between January 2003 and June 2004, each firm engaged in one or more practices that were not adequately disclosed to investors, which constituted violations of the securities laws. On May 31, 2006, the SEC issued a cease-and-desist order to stop these violations.
47. The SEC’s order states, “Without adequate disclosure, certain Respondents bid to prevent auctions from failing. Failed auctions occur when there are more securities for sale than there are bids for securities and result in an above-market rate described in the disclosure documents. These Respondents submitted bids to ensure that all of the securities would be purchased to avoid failed auctions and thereby, in certain instances, affected the clearing rate.” (See Pg. 6, paragraph b.1).

Trisha Brase

48. Ms. Brase is employed by Stifel in St Louis, MO in the fixed income, retail trading division.
49. Since September 2006, Ms. Brase has been employed by Stifel on the ARS trading desk.
50. Ms. Brase's duties did not entail more than understanding the mechanics to buy and sell ARS and it was not part of her job to know or understand the risk in ARS.
51. Ms. Brase was the individual employed by Stifel that the Agents relied on for information on ARS. Ms. Brase thought ARS were cash equivalents and would refer to them as such.
52. Ms. Brase was informed by her predecessor at the Stifel ARS trading desk, Corina Shemonia, that there were risks of failed auctions.
53. Ms. Brase was not provided training on ARS and the auction process other than hands on training, and general research conducted on her own.
54. Ms. Brase is aware of Stifel Agents referring to ARS as money market alternatives.
55. Ms. Brase knew in the Fall of 2007 that some ARS auctions had failed. Ms. Brase did not discuss those auction failures with anyone at Stifel.
56. Ms. Brase was aware that in January 2008, a Stifel auction failed and there was no support bid placed by Stifel.
57. After the ARS market failed in February 2008, Stifel Agents complained to Ms. Brase that they were not aware of the liquidity risks of ARS.

Stifel's Agents

58. All of the individuals listed below in this subsection entitled, "Stifel's Agents" are currently employed by Stifel as an Investment Adviser Representative or Registered

Representative, were employed when the ARS market failed in February 2008, and have Indiana investors that have money in ARS.

59. Besides the Compliance Bulletin dated February 25, 2008, and the Oppenheimer brochure, none of the “Stifel’s Agents” were provided with any kind of written material on ARS from Stifel.
60. Katherine Boyer has 1 Indiana investor with \$25,000 in ARS. Ms. Boyer has indicated the following:
 - a. ARS was a money market equivalent.
 - b. She did not disclose the risk of an auction failure or illiquidity.
 - c. She had no knowledge of auction failures.
 - d. Her training on ARS consisted of phone calls with the ARS trading desk.
61. Jeffrey Cohen has 92 Indiana investors with roughly \$45,000,000 in ARS. Mr. Cohen has indicated the following:
 - a. He did not receive any training on ARS by Stifel. He would ask Ms. Brase if he had any questions regarding ARS.
 - b. He had no knowledge of auction failures.
 - c. He did not disclose any risks associated with ARS to clients because “most of the clients in the real world don’t want to hear you know, every single risk factor.”
 - d. He sold ARS as a cash substitute to some clients.
62. Kevin Fitzpatrick has 1 Indiana investor with \$25,000 in ARS. Mr. Fitzpatrick has indicated the following:
 - a. Stifel did not train him on ARS.
 - b. He had no knowledge of an ARS auction failing prior to February 2008.

- c. He did not disclose risks of auction failure or illiquidity.
 - d. He believed ARS to be an alternative to a money market or a short term bond.
63. Laura Foeller has 1 Indiana investor with \$100,000 in ARS. Ms. Foeller has indicated the following:
- a. Other than speaking with Ms. Brase, she did not receive any training from Stifel on ARS.
 - b. She did not read the Oppenheimer brochure on ARS.
64. David Goldman has 1 Indiana investor with \$25,000 in ARS. Mr. Goldman has indicated the following:
- a. ARS was a liquid product and a short term product.
 - b. He did not receive any training from Stifel on ARS.
 - c. Stifel did not provide him with any instruction on how to properly disclose ARS to clients.
 - d. He did not disclose any risks associated with ARS to his 1 Indiana investor.
65. Brandon Kanitz has 1 Indiana investor with \$25,000 in ARS. Mr. Kanitz has indicated the following:
- a. Other than speaking with the trade desk in St Louis, Stifel did not provide him with training on ARS.
 - b. He had no knowledge of the ARS auctions failing prior to February 2008.
 - c. He compared ARS to cash and a money market.
 - d. He did not disclose any risk of any failures associated with ARS.
66. Donald Kaplan has 1 Indiana investor with \$125,000 in ARS. Mr. Kaplan has indicated the following:

- a. ARS is a short term alternative to a money market or CD.
 - b. He did not receive any training on ARS from Stifel.
 - c. He did not disclose the risk of illiquidity.
67. Nathan Karras has 8 Indiana investors with \$2,100,000 in ARS. Mr. Karras has indicated the following:
- a. He did not receive any training on ARS from Stifel.
 - b. He did not provide the clients with any kind of risk disclosure on ARS.
68. Jamie Knall has 2 Indiana investors with \$1,100,000 in ARS. Mr. Knall has indicated the following:
- a. He had no knowledge of ARS auctions failing.
 - b. He did not disclose the risk of ARS becoming illiquid.
 - c. He was not provided with any kind of training on ARS by Stifel.
69. Gary Moss has 1 Indiana investor with \$25,000 in ARS. Mr. Moss has indicated the following:
- a. Equity could be achieved in 7 days.
 - b. Other than discussions with Ms. Brase and website information from Stifel's website, he was not provided with any formal training on ARS by Stifel.
 - c. He knew there could be a delay in the auction process, but he did not disclose that an auction could fail.
 - d. He did not disclose the potential of illiquidity of ARS.
70. Alan Otis has 1 Indiana investor with \$25,000 in ARS. Mr. Otis has indicated the following:
- a. He was not provided with any training on ARS by Stifel.

- b. If he had questions on ARS, he would speak with Ms. Brase.
 - c. He presented the product as an alternative to a money market and a place to park money.
71. Jeffrey Rahm has 1 Indiana investor with \$25,000 in ARS. He has indicated the following:
- a. He did not perceive much risk in ARS.
 - b. The only training he was provided by Stifel on ARS was speaking with Ms. Brase, and a pamphlet on ARS.
 - c. He told his clients ARS was perfect for a short term investment.
72. Tim Rooney has 17 Indiana investors with \$3,300,000 in ARS. He has indicated the following:
- a. ARS was a liquid money market alternative.
 - b. He did not receive any training on ARS from Stifel.
 - c. If he had questions on ARS he would call Ms. Brase.
 - d. He did not disclose a risk of auction failure or illiquidity of ARS.
73. Paul Sayles has 1 Indiana investor with \$25,000 in ARS. He has indicated the following:
- a. He does not possess much knowledge of ARS.
 - b. He has not received any training on ARS by Stifel.
 - c. He never requested information on ARS from Stifel.
 - d. He compared ARS to a money market.
74. Frank Urbahns has 1 Indiana investor with \$100,000 in ARS. Mr. Urbahns has indicated the following:
- a. The only training he had on ARS from Stifel was a phone call with Ms. Brase.

- b. He did not disclose the risk of an auction failure or the illiquidity of ARS.
- 75. Edward Valdetaro has 3 Indiana investors with \$825,000 in ARS. He has indicated the following:
 - a. He was not provided with any training on ARS by Stifel.
 - b. He did not disclose the risk of an auction failure or the illiquidity of ARS.
- 76. David Wozniak has 3 Indiana investors with \$100,000 in ARS. He has indicated he was not provided with any training on ARS by Stifel.

Specific Allegations by Indiana Investors

- 77. KD is a resident of Ft Wayne, IN and a former client of Stifel. KD's Stifel representative was Tim Rooney ("Rooney").
- 78. KD was approached by Rooney to purchase ARS and was informed there was no risk involved with ARS and he could have his money available at any time.
- 79. KD invested \$125,000 in ARS with Stifel. This money was to be used by KD to purchase real estate.
- 80. DM is a resident of Hammond, IN and a client of Stifel. DM's Stifel representative is Nate Karras ("Karras").
- 81. DM was approached by Karras to purchase ARS and was informed there was no risk and the money would be available every week.
- 82. DM invested \$100,000 in ARS with Stifel. This money was to be used by DM to pay a large balloon payment on a promissory note that was coming due.
- 83. RP is a resident of Schererville, IN and a client of Stifel. RP's Stifel representative is Karras.

- 84. RP was approached by Karras to purchase ARS and was informed he could get out after 7 days.
- 85. RP invested \$2,250,000 in ARS with Stifel. This money was to be used by RP to pay his taxes.
- 86. RS is a resident of Carmel, IN and a client of Stifel. RS' Stifel representative is Rooney.
- 87. RS was approached by Rooney to purchase ARS with Stifel and was informed ARS was highly liquid with no risk that could be redeemed within 7, 14 or 28 days.
- 88. RS invested \$650,000 in ARS with Stifel. RS' goals were a safe, liquid investment which was communicated by RS to Rooney.

Count 1
Fraudulent or Deceitful Acts

- 89. This section incorporates by reference all preceding sections and paragraphs.
- 90. The ARS products sold to Indiana investors by Stifel are securities as defined at I.C. 23-2-1-1(k) (2007).
- 91. "It is unlawful for any person in connection with the offer, sale or purchase of any security, either directly or indirectly, (1) To employ any device, scheme or artifice to defraud, or (2) To make any untrue statements of a material fact or to omit to state a material fact necessary in order to make the statements made in the light of circumstances under which they are made, not misleading, or (3) To engage in any act, practice or course of business which operates or would operate as a fraud or deceit upon any person." Ind. Code § 23-2-1-12 (2007).
- 92. In connection with the offer, purchase and sale of securities, Stifel either directly or indirectly, made oral or written statements to Indiana investors, including, but not limited to, the following:

- a. ARS were a fully liquid cash equivalent and money market alternative.
 - b. ARS positions could be liquidated at regularly scheduled periods such as 7, 28, or 35 days.
 - c. ARS were a safe short-term investment.
93. In truth and material fact, and contrary to the statements made by Stifel:
- a. ARS are only liquid if there are sufficient participants in the market ready, willing and able to purchase the security at the next regularly scheduled auction.
 - b. That failure of an auction would extend the period necessary for an investor to wait to liquidate their position in an ARS, and that continuous auction failure could indefinitely extend this period until maturity of the underlying bond, up to twenty or thirty years.
 - c. That ongoing failure of the auction market would trap the investor in the ARS until either the next successful auction or the maturity of the underlying bond, up to twenty or thirty years.
94. In connection with the offer and sale of securities, Stifel, directly or indirectly, failed to disclose material facts to investors, including, but not limited to, the following:
- a. That the ARS auctions had, in the past, been supported by the issuing broker-dealers.
 - b. That a withdrawal of support by the auction dealer from the ARS auction market would result in the elimination of the secondary market for ARS, thus severely restricting their liquidity.
 - c. The risk of auction failure and illiquidity.

95. Stifel failed to disclose material facts in connection with the sale of ARS to Indiana investors in violation of Ind. Code § 23-2-1-12 (2007).

Count 2
Failure to Supervise and Train

96. This section incorporates by reference all preceding sections and paragraphs.
97. The ARS products sold to Indiana investors by Stifel are securities as defined at I.C. 23-2-1-1(k) (2007).
98. A dishonest and unethical practice within the meaning of Ind. Code § 23-2-1-11(a)(6) (2007) includes “failing to properly supervise agents and employees. Supervision includes approval of all transactions and correspondence by an officer or branch manager.” 710 IAC 1-17-1(v).
99. Stifel is required to properly supervise the “Stifel’s Agents.” Proper supervision includes training your agents to properly and accurately sell security products sold by the broker-dealer.
100. “Stifel’s Agents” were not provided with any training on ARS by Stifel.
101. “Stifel’s Agents” relied on Ms. Brase for ARS issues, and she was not trained on ARS by Stifel.
102. Stifel had a duty to ensure that the “Stifel’s Agents” were providing full disclosure of the material facts required to be disclosed in connection with the offer and sale of ARS.
103. “Stifel’s Agents” failed to properly disclose material facts to Indiana ARS investors due to a lack of supervision and a lack of training on ARS in violation of 710 IAC 1-17-1(v).

Count 3
Unsuitability

104. This section incorporates by reference all preceding sections and paragraphs.

105. The ARS products sold to Indiana investors by Stifel are securities as defined at I.C. 23-2-1-1(k) (2007).
106. A dishonest and unethical practice within the meaning of Ind. Code § 23-2-1-11(a)(6) (2007) includes “Recommending to a customer the purchase, sale, or exchange of any security without reasonable grounds to believe that such transaction or recommendation is suitable for the customer based upon reasonable inquiry concerning the customer’s investment objectives, financial situation, and needs, and any other relevant information known by the broker-dealer.” 710 IAC 1-17-1(x).
107. “Stifel’s Agents” were informed of their clients’ investment objectives and financial situation and needs, which included, but is not limited to, a short term investment, liquidity, and low risk. “Stifel’s Agents” Indiana investors relied on them to provide them with suitable investments.
108. ARS is a complex investment product carrying significant risks of auction failure and illiquidity. Unfortunately, ARS was sold by Stifel to Indiana investors who were looking for safe, short-term liquid investments. However, ARS is not a short term investment, and there were risks of failure and illiquidity, which was not properly disclosed to the Indiana investors.
109. “Stifel’s Agents” sold ARS to their clients that were unsuitable in violation of 710 IAC 1-17-1(x).

Relief Requested

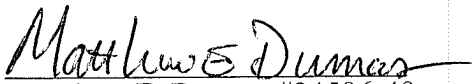
The Division requests that the Commissioner take the following actions:

- a) Find as fact the allegations set forth in this Administrative Complaint;

- b) Order the Respondent to show cause why they should not be permanently barred from the securities industry in Indiana;
- c) Impose a civil penalty in an amount not to exceed ten thousand dollars (\$10,000) for each violation of the Act committed by Respondent;
- d) Order Respondent to pay the costs of the investigation of this matter, pursuant to the Act;
- e) Restitution for anyone damaged by Respondent's violations of the Act;
- f) Find that all the sanctions and remedies detailed herein are in the public interest and necessary for the protection of Indiana investors; and,
- g) All other proper relief.

Respectfully submitted,

INDIANA SECRETARY OF STATE
SECURITIES DIVISION



Matthew E. Dumas, #24596-49

Enforcement Attorney

302 West Washington Street, Room E-111

Indianapolis, Indiana 46204

317.232.6686 (Phone)

317.233.3675 (Fax)

medumas@sos.in.gov

AFFIDAVIT OF SERVICE-CERTIFIED MAIL

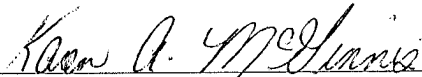
I, Karen A. McGinnis, being duly sworn, state that a copy of the attached and foregoing **ADMINISTRATIVE COMPLAINT and ORDER TO SHOW CAUSE** was sent by Certified Mail, Return Receipt Requested, to Respondent, addressed as follows:

#7053 2007 47

**MAUREEN FISTER
STIFEL NICOLAUS & COMPANY
501 N. BROADWAY
SAINT LOUIS, MO 63102-2188**

on this 1st day of October, 2009.

A copy was also hand-delivered to Matthew E. Dumas of the Division.



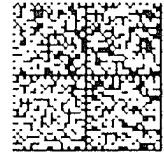
Affiant

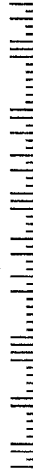
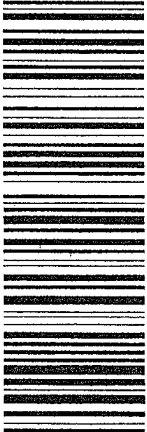
ELECTRONIC SCAN REQUIRED

INDIANA SECRETARY OF STATE
TODD ROKITA
ATTN: J SMITH
302 W WASHINGTON ST RM E111
INDIANAPOLIS, IN 46204-2740

First Class Parcel
DMM 503 9.2.2

Stifel Nicolaus & Company



FCM	USPS FIRST-CLASS MAIL®
INDIANA SECRETARY OF STATE TODD ROKITA ATTN: J SMITH 302 W WASHINGTON ST RM E111 INDIANAPOLIS, IN 46204-2740	
SHIP TO: MAUREEN FISTER STIFEL NICOLAUS & COMPANY 501 N BROADWAY SAINT LOUIS, MO 63102-2188 	
e/ USPS SIGNATURE CONFIRM	
	
9121 8052 1390 7053 2007 47	
Electronic Rate Approved #805213907	

Attention Carrier
on Route #C004

This piece is being
monitored for Delivery
and Scanning accuracy.



Non-Machinable
Parcel

Attention: The styrofoam cube enclosed in this envelope is being included by the sender to meet a United States Postal Service regulation.